FOOD RETAILING AND DISTRIBUTION

Issues and Opportunities Around the World

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The Coca-Cola Company is the world's leading soft drink company, with more than 200 billion servings sold annually in more than 160 countries. Its soft drink products, led by Coca-Cola, diet Coke, Fanta and Sprite, are sold through the world's largest manufacturing and distribution system. The company, headquartered in Atlanta, Georgia, and its bottler system employs more than 320,000 people throughout the world. This system serves over 9.1 million retail outlets worldwide.

The Australian Supermarket Institute (ASI) is the national organization representing retailing, both food and general, in Australia. The Association is supported by state retail traders associations, by national retail companies and by wholesale grocery companies. Its membership covers 12,000 companies with 35,000 stores. The chain and independent supermarket members of the Association have a combined sales volume of $19 billion, which is at least 90 percent of all supermarket business in the country. The Association has strong working relationships with kindred associations in the Asia/Pacific region, being a founding supporter of the biennial Asian Retailer Conference.

Food Marketing Institute (FMI) is a nonprofit association conducting programmes in research, education and public affairs on behalf of its 1,600 members — food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 19,000 retail food stores with a combined annual sales volume of $180 billion — more than half of all grocery sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms and independent supermarkets. Its international membership includes more than 210 members from over 55 nations.

Acknowledgments

This research report represents the presentation given at the FMI/ASI Supermarket Show, Monday, September 10, 1990 at the Sydney Convention Center by Timothy M. Hammonds, Senior Vice President, Food Marketing Institute, and Harry Watts, Managing Director, Woolworths, Limited. Supporting data have been included in this report.

The report provides a review of the opinions and issues of food retail and wholesale top management executives around the world, as well as information on retailing in the Pacific Rim. It is the first such research report done on an international basis.

There are three parts to the research:

Comments and issues ranked by chief executive officers of leading food retail and wholesale companies about current issues and concerns.

Retailing information from companies operating in the Pacific Rim.

Results of a consumer study on store preferences, shopping behaviours and attitudes of the Australian supermarket shopper.

The detailed tabulation for the consumer research is available in *Trends in Australia—Survey on Consumer Shopping, 1990*, a report which can be purchased from Food Marketing Institute.

We wish to thank A.C. Nielsen and Arthur Andersen & Co. for providing international information for this report. And, we are grateful to all the food retailers and wholesalers who made the report possible by participating in the surveys.

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Introduction

Food Marketing Institute, the Australian Supermarket Institute and The Coca-Cola Company are pleased to present this first report on of food distribution issues and opportunities around the world.

In this report we will share with you information from leading food executives, the results of our consumer trends study in Australia, and the review of store operations for companies operating in the Pacific Region.

Our emphasis will be on those companies operating in the Pacific Rim. We define this region to include the following countries:

Australia	New Zealand
Japan	Thailand
The Philippines	Malaysia
Indonesia	Taiwan
China	South Korea
Singapore	Hong Kong

This is a fascinating region with about two-thirds of the world's population. And it is comprised of countries each at a different stage of business and trade development.

There are the Newly Industrializing Economies (NIEs), including South Korea, Hong Kong, Singapore, and Taiwan, which have made considerable inroads in the manufacturing and export markets, with growing and more sophisticated retailing businesses.

The ASEAN 4 (Thailand, Malaysia, The Philippines, and Indonesia) have abundant resources and low wages, but are not yet as industrialised as their neighbors. Food retailing is in a state of flux with many small shops and a minimal number of new, large supermarkets, located mostly in the big cities.

And then we have China - the sleeping giant, the future potential of which no one is game to forecast.

Last but not least, we have Japan, Australia and New Zealand, the most developed countries, with a longer, more traditional history of retailing as a business. Unlike the others though,

Japan still has a majority of small retail shops in the hands of independent operators.

Perhaps no other region has sparked the imagination of the world over the last decade as has the Pacific Rim. For many, this is the laboratory for the future. To say that those living in these countries are writing history is to look through the wrong end of the telescope. For they are literally inventing the future.

Having defined the geographic outline of the Pacific Rim as we see it for this presentation, let's see how this region defines itself in terms of attitudes toward specific issues in the context of the rest of the world.

I. Top Executive Issues

Since FMI has members all over the world, we thought it would be fascinating to see how supermarket chief executives would place priorities on the issues facing them in the major regions of the world. To find out, we mailed a two-page questionnaire to the CEOs of our leading member companies in Europe, South and Central America, the Pacific Rim, and a representative sample of our members in the U.S. and Canada. Where necessary, the questionnaire was translated.

We asked our CEOs to rank the following eight issues from the point of view of their own companies:

Competition
Economy
Environment
Financial Trends
Government
Labour
Nutrition and Food Safety
Technology and Computers

We also asked them to tell us their reasons for selecting their top three.

Now, you may have selected a slightly different list, or you may have grouped the issues differently, and we would not quarrel with that. But for a first time effort at drafting a list that would spark interest all over the world, the response tells us we did indeed identify the key issues.

Enough replies were received to let us break out seven regions:

Australia/New Zealand
Japan
The Rest of the Pacific Rim
North America
South/Central America
Continental Europe
United Kingdom

Let's look first at how our eight issues ranked worldwide.

Global

The rating is based on an eight point scale, with lower numbers being the most important issues and the higher numbers the least.

Global Rankings

2.55	Labour
3.77	Competition
4.07	Economy
4.41	Technology
4.64	Government
5.08	Nutrition/Food Safety
5.19	Financial Trends
5.28	Environment

Although comparisons of the regional rankings are the real purpose this survey, we can learn some things from the overall rankings. For example, labour issues were every region's number one or number two concern. In fact, six of our seven regions placed it as their most serious concern.

Perhaps the surprise is how low were the rankings for Nutrition/Food Safety and the Environment. If there are areas where the top management teams may be lagging behind the concerns of their customers, these two issues would be on that list.

Europe

Let's move first to Europe for our region-by-region look.

Europe

2.66	Labour
4.02	Competition
4.32	Technology
4.52	Environment
4.53	Government
4.78	Economy
4.88	Financial Trends
4.88	Nutrition/Food Safety

Here we see the smallest spread from top to bottom of all the regions. This means that the chief executives were not all of one mind. Most ranked Labour as their top concern, for example, but some of the executives moved other items to the head of their list.

As we dig into the details, one of the reasons for this mix of opinions becomes crystal clear. The United Kingdom is very different from the Continent, and in fact very different from the rest of the world.

Here are the totals for the U.K. versus the rest of Europe:

United Kingdom		*Continental Europe*	
2.92	Nutrition/Food Safety	2.16	Labour
4.00	Labour	4.03	Competition
4.00	Competition	4.19	Technology
4.33	Economy	4.39	Government
4.62	Technology	4.44	Environment
4.65	Environment	4.96	Economy
4.92	Government	4.84	Financial Trends
5.00	Financial Trends	5.73	Nutrition/Food Safety

It is now obvious that one of the world lowest priorities, Nutrition and Food Safety, is England's top concern. Why? Two reasons.

First, their consumers are becoming more nutrition conscious and are changing their eating habits as a result. This is beginning to change sales patterns as many consumers swing away from the traditional British foods.

Second, and this is the more important, Great Britain has recently been through a series of serious food tampering incidents and food safety scares. Perhaps we have all read of the extensive press coverage of mad cow disease, Listeria monocytogenes in dairy products, *Salmonella enderitidis* in fresh eggs, and the rest of the alphabet soup of chemical and biological problems making headlines in England.

Little wonder that CEO's in the U.K. are concerned.

Note also the big spread between the number one and number two concerns. This tells us how fast food safety problems can drive themselves to the top of the list. And, this can happen to any company when it's least expected. If your executive team doesn't already have a crisis management programme mapped out, you should consider developing a programme for your company before a crisis hits.

In Continental Europe, we see an issues pattern much more typical of the rest of the world. That is, Labour concerns are high on the list with Competition and Technology close behind.

Throughout most of Europe, Labour is in short supply. In fact, since this is a pattern we will see repeated all over the world, it's worth spending a little time putting it in perspective.

The number of people aged 15 to 24 is declining all over Europe. In fact, in West Germany this age group will be over 40 percent smaller by the end of the century. At the same time, increased demands for larger supermarkets and more service departments compound the problem. In addition to a declining supply and increasing demand for labour, the supermarket tends to have a poor image among young people looking for an exciting career.

The countries facing the largest decline of young people between now and the year 2,000 include:

West Germany	43%
The Netherlands	29%
Austria	28%
Italy	24%

The countries with the smallest declines include:

Spain	11%
France	11%
Ireland	10%
Portugal	10%

None can look forward to an increase.

As the demand for convenience and service grows around the world, as it is already doing, competition for those young people will be fierce. The same labour pool that staffs our supermarkets forms the primary pool of candidates for fast food restaurants, convenience stores, clothing shops, indeed all service retail stores.

A crying need for young people makes the opening of frontiers as a result of the EC 1992 movement all the more interesting. For this will certainly make it much more difficult for individual countries to control immigration from their economically-poorer but population-rich neighbors. Indeed, one of the keys to the success of the new European Community will be striking a successful balance between the need for workers versus the potential social upheaval from a massive influx of people from East Germany, Poland, Algeria, Morocco, Tunisia, and perhaps, even from Russia.

We have a great deal of work ahead of us in learning how to

address labour and immigration issues successfully. You will see this theme played out around the world as we examine the data.

Now let's continue our tour of the globe by moving to South and Central America.

Latin America

Central and South America

1.86	Economy
3.14	Labour
3.38	Competition
3.69	Government
4.75	Technology
5.08	Financial Trends
6.25	Nutrition/Food Safety
6.75	Environment

Here we see quite a different picture. Even though Labour is a problem here too, the Economy is the number one concern, and by a wide margin. In fact, the spread between the first and last items is the greatest here of any of our regions. And, that last place concern is the Environment. Small wonder then that the rest of the world perceives the depletion of the Amazon rain forest quite differently than do the South Americans.

This is a portrait of a region fighting for economic survival. The macro-economic problem of inflation overwhelms everything else.

Here's a little perspective on why the Economy is the issue of greatest concern for this region. Let's make a comparison between two of the key economic statistics for two extremes, Brazil and Japan, as well as for Australia, since the Economy is a major issue for Australia as well.

In 1989, Australia's inflation rate was 7.8 percent, similar to the previous year (7.7 percent), and the prime interest rate was 19.5 percent, up from 14.6 percent in 1988.

Japan in 1989 had an inflation rate of only 1.5 percent, slightly higher than the previous year (0.7). The Japanese prime interest rate was 4.9 percent, again very much the same as 1988 (3.4).

In Brazil, the 1989 inflation rate was 1,764 percent, up from 934 percent the year before. And the prime rate was 80 percent, up from 22 percent in 1988. With inflation compounding at 2

percent per day, the total attention of the business turns to survival.

Imagine the problems. How would you calculate the housekeeping money each week? How would you calculate the store wage and salary bills for your store? How would you set the budgets for the new year? How would you explain to the shareholders that you miscalculated the increase in food prices by a few hundred percent?

Australia now seems to be making real progress on improving its own economy. But Brazil would be more than happy to trade places right now.

North America

Let's contrast this battle for survival with the concerns of North America, that is the United States and Canada.

North America

2.03	Labour
4.03	Environment
4.24	Competition
4.28	Technology
4.61	Government
4.74	Nutrition/Food Safety
5.36	Economy
6.31	Financial Trends

Here we see the only region in the world where the Environment ranks in the top three concerns. Even in Europe where a strong "Green Consumer" movement has gotten a lot of press, the issue was ranked fourth.

There is an important point to be made here. For developed countries, Environmental concerns focus very quickly on the supermarket because of the products we sell.

Here, for example, is a quotation from the European version of a very popular book called *The Green Consumer* : "People have discovered that it's an extraordinarily empowering experience to walk down the supermarket aisle and realise that you're voting for or against the environment with every product purchased."

These are our customers, talking about the products we sell them. Even though the quote is from Europe, the same attitudes are beginning to surface in almost every region surveyed.

We in the supermarket industry are on the front line of this battle. We are the last six feet of the marketing cycle, the length of the checkstand. We are the most visible; we deal face to face with these concerned consumers every day and it's our role to work with our suppliers, our people and our governments to help protect our world. It is a battle that is not going to go away and neither should it. But it will only be won through cooperation and coordination, not through confrontation.

As this issue grows in importance, make no mistake about it — our industry will continue to be on the front line of the battle.

We see one other very interesting point from the list of North American priorities. Here we see the largest gap between the top item and the second item that we see in any region of the world, a full two points. Even in Latin America, the gap between the Economy and their number two, Labour, was only 1.28 points.

This tells us that the labour shortage in America is a serious problem, even more of a problem than it was in Europe. Our aging population and the declining supply of young, entry-level people is cutting the work force just at a time when consumers are demanding more labour-intensive service departments. The collision between these two trends has produced a wreckage that all of our companies are trying to deal with.

Pacific Rim

Moving now to the Pacific Rim, we have separated Australia, New Zealand and Japan from the rest of the countries because we felt these would be somewhat unique. For the Pacific Rim outside of Australia, New Zealand and Japan, we see Labour as the primary concern and the Environment as the last. No surprises here except that this is the only region to place Technology among the bottom three. Obviously scanning and other computer-based technologies are just getting started.

The Pacific Rim (excluding Australia and New Zealand)

2.27	Labour
2.93	Competition
3.29	Economy
4.00	Government
5.07	Nutrition/Food Safety
5.15	Technology
5.54	Financial Trends
6.92	Environment

Here, too, the Environment takes a low priority. Perhaps the surprise is that Nutrition/Food Safety ranks higher here than in

any other region, outside of the U.K.. The reason? In much of the Pacific Rim, eating habits are just beginning to change after centuries of tradition. Improved communications, logistics and economic wealth have made people aware of other ethnic options and allowed companies to deliver these choices. As a result, everyone in the food system is starting to scramble to keep up with new food preferences.

It's clear though that many issues important around the world are emerging here. There are more and more working women, fast food competition is emerging, environmentalism is growing, and the age of technology is dawning.

Japan

In Japan, labour is again the number one concern. Labour supply and employment security are now retail concerns as the population ages. Nutrition and Food Safety drops almost to last. Competition is very high on their list of concerns. That is why they are so successful. They focus very clearly on their competition and they never give up.

Japan

1.83	Labour
3.25	Competition
3.50	Technology
5.17	Financial Trends
5.50	Economy
5.58	Environment
5.75	Nutrition/Food Safety
6.00	Government

Thoughts about the Government center around the effects of relaxing the large-scale retail store law. As in Europe, Japan has had restrictive laws concerning store construction. With the relaxation in applying the "large store" law, competition in selling, availability of labour, wage rate changes, and other factors will change the current status of operations.

Technology in particular is much more of an issue for supermarket operators in Japan. Scanning is much further along there as are other computer-based management systems. Perhaps the surprise here is that although the Environment is more important than in the rest of the Pacific Rim, it still does not break into the top three concerns.

A year from now, this may change as Japanese consumers are already going through a "greening" of their own. Biodegradable plastic bags are now being used in Tokyo, Suntory beer has introduced pull-tabs that stay on the can, and T-shirts urging protection of the ozone layer are now popular.

Australia/New Zealand

Let's move from Japan to Australia and New Zealand where we see Labour as the top concern but followed closely by the Economy.

Australia/New Zealand

2.41	Labour
3.22	Economy
4.36	Technology
4.39	Financial Trends
4.50	Environment
4.59	Competition
4.87	Government
5.13	Nutrition/Food Safety

The reasons for concern over the Economy in Australia are clear: very high interest rates, fear of a recession both here and for their trading partners, changes in consumer spending patterns as shoppers economise, and a general feeling that the government has lost touch with business realities, particularly with small business.

Labour, however, is still the number one concern. Comments from the industry leaders ran similar to those we received from the rest of the world: a declining supply of young people, increasing competition for workers from fast food outlets and other types of retail stores, and a poor career image for supermarkets

However, we found a new twist here in Australia and to a somewhat lesser extent in New Zealand. Productivity of the work force was actually the greatest labour concern. In this country, perhaps more than in any other, government work rules, labour union restrictions, numerous holidays, and shorter working hours than in other countries are all major problems contributing to a lack of productivity growth for the Australian labour force.

As Australia and New Zealand become more and more competitive with the economies of the other Pacific Rim countries, this is an issue that needs to be confronted, and confronted quickly.

Let's look now at some of the other major differences that we found around the world on the key issues.

Economy

As to the Economy, most of the world is worried about recession with the notable exception of South and Central America. There the problem continues to be inflation.

Government

Looking at concerns over the Government, we see some fascinating differences. For most of the world, tax policies are the clear concern, except for Japan, New Zealand and Europe where the main problem has been government restrictions on growth. Policies that favor small businesses by making it difficult to obtain new sites continue to cause problems for developing the supermarket industry. Some governments though, particularly in Japan, are already relaxing their store construction regulations.

In those countries with expansion restrictions, there is a danger that companies can become complacent. According to Charles de Cooman d'Herlinckhove, director of Delhaise Le Lion, S.A., "Established retailers (then) enjoy a comfortable competition freeze." This is changed when innovative retailers, often from the outside, come into an area and target opportunities not seen by the home companies.

However, rather than being focussed on one or two issues, in Australia, government concerns are almost totally balanced over all types of problems. Tax policies, growth restrictions, legal restrictions, shopping hour controls, the list goes on and on. Apparently, whenever the government finds a new way to cause problems, they jump right on it.

Nutrition/Food Safety

As to Nutrition/Food Safety issues, freshness is the concern throughout most of the world. That is, obtaining enough high quality product and keeping it in good shape all the way to the consumer's table. This can be seen in the comments of Graham Evans, Managing Director of Woolworths in New Zealand. He says that "continuing concern about nutrition and health with fresh, wholesome foods being in demand is an important future trend in food retailing."

The two exceptions to this nutritional emphasis are the United Kingdom and North America where the top concern is Food Labelling.

In the United States, one reason for this is certainly the new regulations proposed just this July by the

U.S. Food and Drug Administration. These would extend mandatory nutrition labelling to virtually all packaged products, and perhaps even to perishables and fast food restaurants as well.

In Europe, the issues in food labelling are new European Community directives which might be coming from Brussels and the fallout from their many food safety scares over the last two years.

Technology

Technology concerns present an interesting worldwide profile. You might think the important issue would be making the right hardware decisions or gaining consumer acceptance for scanning. But no, the issue most often mentioned worldwide is management of the data. New technology is producing information faster than we can possibly use it. In fact, it's producing new types of information that our managers don't even know how to use. We think there's a message here.

Technology needs to become much more of a top management issue than it has been. Our technical people have done a fine job of bringing us into the information age. But now it's up to top management to set a strategic direction for its use in day-to-day operations decisions.

Perhaps if we make better use of Technology in the future we may overcome the problems associated with the acute shortage of labour.

Environment

The last issue we will comment on is the Environment. When we examine what executives were telling us about Environmental issues, we find a distinct lack of focus around the world. In other words, many, many individual concerns pop up with no distinct centering of priorities around any one or two issues.

Since this is a new concern in many areas, the issues are still sorting themselves out. Even in those countries where this issue has been in the forefront for some time, changes in technology are changing the answers to some of our most important questions.

New recycling techniques, new knowledge about what does or does not biodegrade, even new information about the ozone layer and global warming are still shaping opinions. Perhaps this issue fell last on our global priority scale because, although we all know it's important, none of us yet knows exactly what is fact and what is fiction. The reason why the Environment was

number eight on the global list was not because we aren't concerned but rather that we don't know how to handle it.

Summary

Well, that has been a quick look at world priorities as seen by supermarket executives. When you think about it, there may be no better group to assess emerging trends. After all, our industry is one of the few that still sees every family at least once a week in our stores.

Because of this and our low profit margins which make us so volume oriented, we are uniquely sensitive to consumers. It is not an exaggeration to say that our stores mirror lifestyles in our own countries.

Let's take a concrete example of a parallel trend happening both in Australia and in the U.S. Our first waves of immigrants from other countries tended to homogenize into our two societies. We both fancied ourselves as "melting pots" for people looking for freedom and opportunity.

While freedom and opportunity still draw people to our shores, today something different is happening. We hear from our members in both countries that today's immigrants are no longer being blended in our "melting pot." They are instead forming a mosaic of very strong and diverse ethnic, demographic and lifestyle groups. These modern newcomers retain two distinct features of their home countries: their language and their food preferences, especially at holiday time. This is rapidly becoming a critical issue for Australia. Current projections suggest that within 40 years, Asian immigrants will makeup 15 percent of this country's population.

We see all of the emerging demographic, lifestyle, and ethnic trends played out in our stores as we adjust our formats, product mixes and service departments to the local market areas. No, it's no surprise that we look to supermarket executives as reliable barometers of social changes.

Let's leave the world stage now. As we are about to see, Australian consumers are certainly interesting enough to deserve a section all their own.

II. Australian Consumer Trends

As part of the original research carried out especially for this report, FMI commissioned what we believe to be the first comprehensive, retail-focused public survey of Australian supermarket shopper attitudes and behaviour. Our goal was to document how Australian shoppers make their buying decisions, where they buy their groceries, and how they feel about their stores.

We hope this will provide an understanding of how the consumer thinks and highlight the challenges and opportunities that lie ahead. The complete research report is available from the Food Marketing Institute.

Methodology

Our research tool was a national sample of over 1,000 Australian food shoppers carried out by telephone during the second week of May, 1990. Market Facts, in cooperation with The Roy Morgan Research Centre, conducted the interviews. A similar study of American food shoppers (*Trends-Consumer Attitudes and the Supermarket)* has been conducted by FMI annually for almost twenty years. This report provides information which our members use to design and remodel their stores, determine their mix of products and service departments, and anticipate emerging trends. We, therefore, have a base of comparison for this study and enough history to lend perspective to what we see in Australia.

Throughout this area as in other regions of the world, consumers are becoming more interested in quality and selection of products. This is the result of better communications and logistics, higher disposable income and more leisure time. Women in countries throughout the world are increasingly joining the work force with the inevitable consequences for retailing in product selection, services, expanded store hours, and in competition from restaurants and convenience stores.

The results of our interviews are striking more for their similarities between our two countries than for their differences. The shoppers in these two great nations, literally a world apart, are clearly much more alike than we might have thought at the beginning of this project. The press today is filled with reports about the global marketplace, about the fact that all of us are much more a part of the international family than was the case a generation ago. This research report is a case study of just how true that is.

Clearly there are important differences between our countries. This is apparent in how we dress, the sports we follow, our politics, and the fact that our American car is, in Australia, a Yank Tank. But at least in the way we look at our grocery stores, we think alike.

Important Features

For example, when we read Australian shoppers a list of items to consider when selecting a supermarket and ask them to rank their importance, what do you think ranks number one? Well, it isn't price or even location, it's quality produce. This same item has held the top spot in America for the last four years and the proportion of shoppers in both countries who rank produce as most important to them is virtually identical. The items of importance in Australia are, in order: quality produce, courteous employees, quality meat, low prices, wide selection, fast checkout, and ample parking. Although the order does differ somewhat, the top five items in our two countries are exactly the same.

Perhaps this ranking of importance deserves a brief word of explanation. Where supermarkets are scarce, location will almost always be the dominant feature of choice. But where people have a choice of supermarkets nearby, then most people will begin to look for other attributes in selecting their supermarket. It's against this backdrop in Australia that quality produce surfaces as the number one ranking for store attributes.

Working Women

If you study the data closely, another factor emerges which may say something about the store of the future. Working women in Australia, who after all buy most of the groceries for their families, are beginning to feel the same time pressures experienced by working women in the United States. This is evident in the data. Certainly they want to make the best use of their time so one-stop shopping is important to them. They also want to get through the checkout lines without long waits and they would like plenty of parking space.

But women in Australia, like their counterparts in America who hold down jobs and manage a household at the same time, have a problem. They have less and less time to shop during traditional business hours. Thus, two-thirds of them said longer extended shopping hours was very or somewhat important to them. Another convenience is prepared foods. Working women more than other segments felt delicatessens were important when selecting a supermarket. These may become trends of the future, especially as more women join the work force. This is a significant opportunity for the supermarket industry.

Satisfaction

As to satisfaction with their supermarkets, shoppers here give their stores a rating of 7.4 on a 10 point scale with 16 percent rating their favourite store a nine or a 10. They are most happy with convenient locations, but feel there is the most room for improvement in the provision of nutrition and health information, and in the fresh seafood sections of supermarkets. In general, people feel that most features of the supermarket are improving or have stayed the same over the last few years except for value for the money. Here, 64 percent of the people feel that things have become worse, perhaps an indication that price trends and inflation are taking their toll.

While it's true that consumer expenditures for food have been rising slowly since 1985 after decreasing through the early 1980s, Australia still ranks in the bottom 10 countries as to amount of income spent on food. Still, this is a key bellwether to watch. There is no better leading indicator of consumer activism than percent of income spent on food.

One of the most interesting features of our survey is the opportunity to pay closer attention to the needs of those shoppers with the most money to spend, and perhaps those with the most influence. Consider these facts:

- Working men and women indicate much lower satisfaction levels than their non-working counterparts.
- Satisfaction is low among shoppers under the age of 35.
- Shoppers with children give lower satisfaction ratings than those without.
- Shoppers with higher levels of education are less satisfied than are other shoppers.
- And, a dramatic decrease in satisfaction occurs as income increases.

All of these facts suggest that the needs and wants of the opinion leaders are changing. In this environment, there is substantial opportunity for those retailers who can respond to their concerns.

Expenditures

In May, when our survey was taken, Australian shoppers estimated their weekly grocery expenses to average $A94, with 68 percent of them spending $A100 or less per week. Single individuals were spending an average of $A46, while a family

of four was spending an estimated $A118. Asked what they do to economise, most people use leftovers, do more meal planning, and stock up on bargains and 39 percent said they now eat out less often.

Store Loyalty

Australians seem to be a loyal group once they select their primary supermarket. During the last 12 months, only 20 percent said they had switched the store where they do most of their shopping. The comparable number in the U.S. for 1990 was 27 percent. As you might expect, younger shoppers are the most likely to switch with 42 percent of those under the age of 25 changing stores in the last year while only 8 percent of those over 55 did so.

For those who did change stores, the reasons for their decision are quite predictable. One-third of them switched because of a more conveniently located new store and almost one-third switched because they moved. One-fifth changed stores for better prices.

Shopping Patterns

Shoppers here also seem to come to the supermarket with most of their purchases already planned. When asked whether or not they buy only what's needed or make some impulse purchases or stock up on bargains, 67 percent say they buy only what's needed. Families with children are more likely to make impulse purchases than those without and impulse purchases generally increase as income levels rise.

How often do shoppers go to the store for groceries? Well, here we do see a difference between our two countries. In Australia, the average is 3.2 times per week with 37 percent returning four or more times every week. In the States, the average is only 2.2 times per week with only 13 percent returning four or more times.

In addition to the number of visits to food stores, Australian shoppers were asked about the number of different stores they visit each week. Although they are loyal to the store where they buy most of their groceries, they clearly use several stores to round out their full shopping list. More that 80 percent say they shop at two or more food stores with 14 percent saying they visit five or more on a regular basis.

No doubt this points out an important difference between shoppers here and in the U.S., differences that are ingrained in our lifestyles and traditions. Here, shoppers visit specialty stores for meat, produce, and perishable products. The butcher, the greengrocer, the fish shop, and the hot bread shop all dot

the landscape. In America, the need for one-stop shopping has concentrated much more of the business in the supermarket.

The supermarket in Australia is the primary store type for such items as dairy products, soft drinks, and health and beauty care items. But the specialty store is still the primary outlet for baked goods, meat, fresh fruits and vegetables, flowers, and fish. As the need for one-stop shopping grows, there are obviously important growth areas still to be exploited for the supermarket format.

There are regional differences in Australia in terms of how often people shop, and in how many stores they visit. In New South Wales, for example, residents visit the most stores with only 31 percent concentrating their purchases in one or two stores, while in Western Australia, 52 percent of the shoppers use just one or two stores.

Thursday is the most popular day for food shopping, although Saturday is a close second for working men and women. The importance of Thursday is obviously a consequence of the extended trading hours available then versus the restricted evening hours during most of the week.

Nutrition

We come now to one of the most interesting parts of our study, the interest in nutrition. Health and nutrition seem to be issues of high interest that are sweeping the globe, and our two countries are no exceptions.

In Australia, 93 percent of the population say they are very or somewhat concerned over the nutritional content of the food they eat. The comparable percentage in the U.S. is almost identical (95%). Women tend to be slightly more concerned than men and those with children are definitely more concerned than those Australians without children. Even here however, we see interesting differences between our two countries. In the U.S., the concern generally increases with age. In Australia, those under the age of 44 are significantly more concerned about nutrition than are their older counterparts, with those over 65 the least concerned group. Therefore, the purchase patterns and need for information will be somewhat different here than in the United States.

The nature of specific concerns is also somewhat different. The number one concern is identical in both countries: dietary fat. After that, however, Australians are much more concerned with chemical additives, freshness, and preservatives. In the

U.S., the concerns after fat are cholesterol, sodium, calories, and sugar. It will be very interesting to watch the list of concerns in the future to see if our two countries evolve to be more and more alike.

It will also be interesting to see if health and nutrition issues become of more concern to supermarket operators in the future. You may recall that Australian grocers ranked nutrition and food safety issues last in our top management survey. With 93 percent of the shoppers concerned about nutrition, it may not be long before the top management perception of this issue changes.

Food Safety

We leave our consumer research section with one last area of similarity. When asked who shoppers rely on to be sure that the foods they buy are safe, the people in both our countries are most likely to rely on themselves as individuals. That is, they are willing to learn what is required to make intelligent decisions and then to make their own choices based on their personal preferences and lifestyles. In Australia, 50 percent say they rely primarily on themselves with 19 percent relying on manufacturers, 10 percent on consumer organisations, 9 percent on retailers, and only 7 percent relying primarily on the government. This is an encouraging vote of confidence in the individual.

We hope the information provided by this survey has given each of you food for thought. As the pressures of time and two-income families continue to become more and more a part of our everyday lives, the most successful supermarket operator will be the one who makes shopping easier and more convenient for the customer. The shopper, after all, does hold the balance of power in today's marketplace. This fact is the same the world over.

III. Asian/Pacific Retailing Operations

Retailing is rapidly changing in the Pacific Rim. Stores here are mirroring the size, technological developments and merchandising strategies of the best examples from around the world. Lessons from the international marketplace of ideas will quicken this development process as companies learn from the experiences of others.

Sophisticated stores can be found in all countries, with the best techniques seen somewhere in each. Ideas from around the world enable executives to rapidly adopt and implement new concepts. We found that the chief executives already know where they want to go in applying new technology, in creating new merchandising techniques, and in addressing changing customers.

When asked about specific changes affecting their businesses, companies operating in the Pacific Rim each placed a slightly different emphasis depending on their home country.

Demographics

For Demographic Changes, although income and age levels ranked in the top two positions, those outside Japan, New Zealand and Australia placed more emphasis on changing income levels. For these countries, the population's disposable income is rising, which in turn means that the customer is becoming more sophisticated and educated. For the retailer, this means an increase in services a desire for higher quality products and the need for a different selection of products which must be available.

In Hong Kong, the effects of 1997 are already being felt. The emigration of the middle class, the decrease in size of families, and a younger customer are all necessitating changes in store operations.

Immigration was mentioned by most Australian companies as they cope with the influx of Asians into their society. Some think this will be an area of growth for an otherwise slowly growing population.

In Japan, Australia and New Zealand the mention of age is the indication of the shift to an older population, a concern not yet felt by other countries in the Pacific Rim. Japanese are quite cognizant of the effects of this aging population on the variety

of more healthful foods, diminishing sales, changing store formats, and labour shortages.

Lifestyles

Following Demographics, we looked at the subsequent shift of Lifestyles. Eating habits was the number one change for most all countries. This is being driven by several factors, one of which is the increase in the number of women in the work force. This influx of women is also triggering changes in shopping patterns, product mix offerings, a decrease in number of children, and increases in living standards, all necessitating adjustments in store formats and operating hours to accommodate one-stop shopping.

The companies operating in Australia are most anxious to look at extending trading hours with the increase in the number of women working.

The Japanese retailers are also placing much emphasis on the changes working women will bring to retailing. The major benefit will be the increased income from two-wage-earner families. On the other side, the executives said that competition from restaurants will increase as people eat out more, there will be the need to extend shopping hours and create an atmosphere of one-stop shopping, and they will need to change the types of convenience foods offered.

In order to cope with the time constraints placed on the two-wage-earner families, many companies are specifically wondering how to market prepared foods as well as how to select and market the extensive services demanded by this new consumer.

Other factors changing eating habits in the Pacific Rim are the improved communications with television and print media showing people the variety available in foreign countries; the increased mobility of people who are able to experiment with food products in other countries; and, the quicker distribution of product around the world. Companies also mentioned the more Western lifestyle of their customers.

Australians and New Zealanders see a wide variety of changes in eating habits: more healthy products; more international foods, especially Asian foods; more fresh foods, such as deli and prepared products; and more convenience foods. These changes in eating habits are the reason companies named the addition of new departments as an important Operational Change.

In the area of Operational Changes, technology was ranked first for all regions. Store formats was second for all Pacific Rim countries, except Japan, where it was third. Second for Japan was merchandising techniques. New departments along with merchandising were tied for third place in Australia and New Zealand.

Companies are focussing on technology in order to keep up with their changing consumers, tying this to merchandising strategy and tracking techniques. The top technological innovation, and the one causing the most excitement, is scanning. Companies are anxious to see what improvements scanning can bring to their operations and merchandising strategies. They also are anxious to see what computers can do to assist them in other areas such as store layout and design, inventory control, space management and labour scheduling. Australians look at proper implemetation of technology as the difference between success and failure in a competitive, slow growth market.

Store operations surveys were returned from 42 companies with operations in the Pacific Rim countries. Nine of these were from Japanese retail companies. Although this is not enough for us to provide as complete a review of retailing in other countries as we will for Australia and New Zealand, we are able to make some statements.

But let us begin our journey into retailing operations right here in Australia and New Zealand.

Australia

In Australia, four major supermarket companies hold 72 percent of the Australian grocery market. The market shares and other company data presented here are a matter of public record:

Woolworths	26%
Coles/Bi-Lo	26%
Franklins	14%
Jewel	6%
	72%

These companies dominate every market in Australia. And with Davids Holdings' 11 percent, the largest wholesaler in the country, these five hold well over 80 percent of the market.

Although the major chains have the largest share of the grocery market, they certainly do not dominate the fresh foods area. Even though three-quarters of the large full-line supermarkets carry comprehensive ranges of meat, fresh fruit and

vegetables, and other perishables, the small specialty stores of Australia dominate these particular markets.

In meat, for example, the 1,700 small specialty butcher shops have the major share of the market, 72 percent in all. The supermarkets have a mere 27 percent.

The fresh fruit and vegetable category is similar, although not nearly as dramatic. About 60 percent is currently being sold through the independent greengrocer, but the major supermarkets are gaining each year.

Fresh baked goods are still sold primarily by the small specialty stores as are fresh delicatessen products. Fresh fish is usually purchased from the speciality stores or from large, bright modern fish markets located in all the major cities on the coast.

Another interesting fact about the supermarket industry in Australia is the large turnover of basic general merchandise sold through these stores.

Most large supermarkets with sales volume in excess of $5.6 million per annum could have approximately 10 percent of total store sales coming from general merchandise - such as men's, women's and children's basic clothing.

This is primarily a result of tradition because the top two supermarket companies in Australia today, Woolworths and Coles New World, started as variety or general merchandise companies in the early 1900s and didn't move into food until the 1960s. In fact these companies still operate department stores, discount department stores, variety stores and specialty apparel and electrical stores.

Franklins and Jewel are two of the finest grocery competitors that could be found anywhere in the world. In fact, it was only six years ago that Franklins was awarded the FMI trophy as the most unique food store operator in the world. These stores hold the largest share of the Sydney market with over 30 percent of market share. And they do not advertise, pack the customers' groceries at the checkout, or sell meat or fresh fruits and vegetables. And, their stores are relatively small.

All they sell are groceries, and they sell them primarily on price. The prices are so low that today the Sydney grocery market is one of the cheapest of any major city in the world. It's a competitive market and the customers are the winners.

The Australian grocery market is now a $A25 billion dollar market, employing about 10 percent of the workforce, with about 7,500 grocery stores nationally in 1989. The large stores (those with over $A5.6 million per year) hold about 63 percent of the market, the medium size stores ($A0.99 to 5.6 million) about 22 percent, and the smaller stores about 15 percent of the market.

A similar profile of concentration unfolds when we examine the market by type of company. The major grocery retailers now do about two-thirds of the trading volume. Mergers and acquisitions have dominated the retail scene during the 1980s along with trends toward larger stores and the expansion of service departments and expanding competition with drug stores. Health and beauty care item sales, for example, have been expanding rapidly in recent years in supermarkets while this category has been flat to declining in drug stores.

New Zealand

In New Zealand, total food stores number almost 2500 (2457),fewer than in the preceding years, (1987, 3005; 1986, 3076; 1985, 3076), in about $A0.4 billion dollar market. That's in a country with about 3.4 million people.

New Zealanders enjoy a less restrictive business climate than do the Australians. The New Zealand government has been deregulating and relaxing many laws so that companies can better compete both internally and with foreign markets. Various controls on wages, pricing and fees have been eliminated. For example, in the service industry, this means retailers in New Zealand can be open for business in the evenings and on weekends.

In order to help us better understand the grocery sector, we conducted a survey of store operations data which we believe to be the first published information of its kind.

To collect our data, we mailed a two-page questionnaire to members of the Australian Supermarket Institute and Food Marketing Institute. Members in Australia and New Zealand gave us data for 1,597 stores doing an estimated 15 billion in Australian dollar sales each year. We did not include the very small convenience stores nor the hypermarkets in this sample.

Australian/New Zealand Retailing Operations

We have combined both Australia and New Zealand because the stores responding to our survey were very similar in both countries. Our sample from New Zealand is smaller and runs heavily to the larger stores which, as you might expect, are similar to their larger counterparts in Australia. We converted

all currency to Australian dollars.

Our store profile is divided by store size as follows: stores less than 400 square metres, those between 401 and 1,000 square metres, and those over 1,001 square metres. Our sample is quite good at both ends of the spectrum, with an adequate but smaller group of the medium sized stores.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Number of Stores	1,597	450	80	1,067

In all cases, we will be using weighted mean data so that no one company can be specifically identified. In addition, to guarantee confidentiality, no one outside of the FMI research team tabulating the data had access to the individual questionnaires.

The proportion of stores with scanners in our sample is 62 percent. Almost none of the smaller stores in our sample use scanners (only 21 stores to be exact) while the larger store categories both exceed 80 percent.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Percent Scanning	62.2%	4.7%	82.5%	84.9%

The average size of these stores is just over 1,300 square metres, with the smaller stores averaging 230, the medium sized stores averaging almost 830, and the larger stores averaging over 1,800 square metres.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Average Size in Sq. Metres	1,348	231	828	1,858

These stores have an average of 9.5 checkouts, with the smallest averaging 2, the medium sized group 6, and the largest stores 13.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Number of Checkouts	9.5	2.1	6.3	12.9
Average Weekly Sales ($A)	177,820	25,880	104,300	247,400

Weekly store sales range from $A25,880 to $A247,400 with an average of $A177,820.

They carry just over 10,000 items on average with the range from the smaller stores at almost 3,100, the medium just over 9,000, and the larger just over 14,000.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Number of Items	10,747	3,076	9,250	14,095

Turning to the employee side, we find an average of almost 80 workers per store, with the smaller group employing 13, the medium group 48, and the larger stores 107 people each.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Number of Employees Per Store	78	13	48	107

The total hours worked per store per week averaged 2,027 overall with the smaller stores about 280, the medium group just under 1,600, and the larger stores almost 2,800 hours.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Labour Hours Per Store Per Week	2,027	283	1,580	2,796

On the consumer side, the stores in our sample averaged 8,700 transactions per week, with 12 items per transaction. The smaller stores averaged 5,300 transactions of 3.6 items each, the

medium stores 5,400 of 12.3 items each, and the larger stores over 10,300 transactions of 15.3 items each.

	All Stores	Less Than 400 sq. m.	401-1000 sq. m.	Over 1000 sq. m.
Transactions Per Week	8,691	5,306	5,458	10,361
Items Per Transaction	11.9	3.6	12.3	15.3

When asked what their fastest growth departments were, the respondents said the top three categories were fresh fruits and vegetables, fresh prepared foods, and frozen foods. In some published reports, you will see frozen foods as the department with the highest growth percentage. One of the reasons for this is that market researchers may often overlook the perishable categories within a supermarket when collecting data. In the minds of our members, fresh fruits and vegetables is the emerging glamour category.

With this in mind, we decided to probe the operations data for produce in some additional depth. The sample responding to these questions was somewhat more limited, so we will report our findings for the two larger store categories only.

During the winter there are about 130 individual produce items carried in the medium sized stores and almost 170 in the larger. In the summer, these items expand to 146 and 187, respectively.

	401-1000 sq. m.	Over 1000 sq. m.
Produce Items In Winter	132	168
Produce Items In Summer	146	187

These departments typically employed three people in the medium sized stores and 5.8 in the larger, with an average size of 69 square metres and 217 square metres, respectively.

	401-1000 sq. m.	Over 1000 sq. m.
Produce Department Size	69.3 sq.m.	217.1 sq.m.
Number of Employees	3.0	5.8

Given the increasing interest in health and nutrition, it will be very interesting to see how this department grows in the future.

Japanese Retailing Operations

When provided a list of six product categories to rank as contributors to total store sales, Japanese companies said that dry grocery was by far the number one contributor to overall company sales. Fresh fruits and vegetables, meat, and fish and seafood all tied for second place in contribution to sales. Dairy ranked fifth and frozen foods ranked sixth.

The fastest growing categories were meat and fresh fruits and vegetables. Other categories mentioned were dairy, alcoholic beverages, fresh prepared foods and frozen foods.

In the produce department, the average number of items available for those stores of less than 400 square metres was about 175; in stores between 401 and 1000 square metres, the average number was about 220; and for larger stores, 260. The number of staff to support these departments respectively by size, were 3 people, slightly more than 5 and almost 8 and a half.

Overall the labour mix was almost evenly split between full- and part-time workers. Full-timers work about 40 hours per week; part-timers generally work less than 30. For those in our survey, the average store was open seven days a week, for about 9 and a half hours per day.

Hong Kong/Singapore/ Taiwan Retailing Operations

The data provided by the companies in Hong Kong, Singapore, and Taiwan were quite similar, and at the same time different in some respects from the Japanese results. For instance, stores were typically open longer, normally 12 to 13 hours per day, seven days a week. The work week for full-time store employees was longer ranging from 44 to over 48 hours per week. Part-timers worked about 20 to 25 hours per week.

The majority of the employees were full time, with about 60 to 90 percent of all employees working full time.

All companies said that the top three categories contributing to sales were dry grocery, dairy, and fresh fruits and vegetables, in that order. Fourth and fifth placed contributors were evenly divided between frozen foods and meat. Fish and seafood was the sixth-place department for all companies.

The fastest growing department was fresh fruits and vegetables, second was dairy, and third was dry grocery. Health and beauty care and frozen foods were also mentioned as rapidly growing departments.

Stores in these countries typically carried about 170 to 200 produce items, and staffed this department with about six employees.

Phillipines/Malaysia Retailing Operations

Stores operating in The Phillipines and Malaysia were open 11 to 12 hours each day, seven days per week. Once again, fresh fruits and vegetables was the fastest growing category, with dry grocery, health and beauty care and alcoholic beverages following.

There was not a consistent response for the top department contributing to sales. Dry grocery was typically ranked first; dairy and fresh fruits and vegetables were ranked second; and frozen foods, dairy and meat each received a third place nomination.

Employees from these companies worked the longest hours of any of the companies responding, at 48 to 50 hours per week. And, part-timers played a smaller part in these companies with most companies reporting 90 to 100 percent of their employees as full-time.